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WHAT BECOMES OF OUR TRADE BALANCES?

Second Article.

WHAT has been called the mystery of the disappearance of our foreign trade balances would be very much less of a mystery were it not that certain persons are interested in concealing the real facts in the case. By means of their great influence in molding public opinion, these persons, mostly big bankers and Wall Street operators, have been able to exploit a theory of this matter that is well calculated to help along a booming stock market.

According to this theory, about \$250,000,000 of each year's trade balance is used to offset our annual foreign debts for interest dues, tourists' expenses, freights, etc., and the surplus goes to cancel securities returned by foreign investors, and to finance American enterprises abroad. Since 1899 it has also been claimed that parts of this surplus were being loaned abroad or invested in foreign bonds.

In the July (1903) number of the SEWANEE REVIEW, I submitted the reports of foreign dealings in this market, which showed that no part of our balances could have gone to cancel returned securities, for the very good reason that the value of the securities purchased for foreign account largely exceeded the sales.

The next largest factor in making away with our balances is alleged to be our investments abroad. Study of the various estimates shows that there is just as much wild guesswork in this matter as there is in regard to foreign liquidation of our securities. Thus Mr. N. T. Bacon estimates this item at \$144,000,000 yearly, of which amount \$25,000,000 goes to Europe; while Walter C. Ford, in the *Contemporary Review* (March, 1902), puts it at \$450,000,000 for Europe alone. Preposterous as this latter estimate may seem, it is quoted with approval by Frederick Emory, Chief of the Bureau of Foreign Commerce, in the *World's Work* for May, 1902. In a later

article (June, 1902) Mr. Ford mentions a fact that is intended to reassure those timid foreigners who had become alarmed over our industrial invasion. "According to a statement given out by the London Board of Trade, there is no country of first-rate importance, except England, in which foreigners are placed on an absolute equality with natives."

There are some Americans who will smile at this exception in favor of England. The government may pretend to be liberal (and it is only a pretense), but the English people show scant courtesy to foreign industrial invaders. Mr. Yerkes, for instance, found the obstacles to his railroad schemes insurmountable until he consented to give English capitalists a controlling interest in his company. Mr. Yerkes and a representative of the Old Colony Trust Company of Boston (partly owned by foreign capitalists) are the only Americans in the company. James Speyer, of New York, one of the directors, is connected with Speyer Brothers, of London. Mr. Bacon puts the amount of American money in this venture at \$18,000,000, when, as a matter of fact, not a dollar of anybody's money had gone into it up to January, 1902, when his article was published.

The experience of the American Tobacco Company is another good illustration of English hospitality. No sooner had the company unfolded its business plans than there arose such a howl of terror as had not been heard since Bonaparte threatened to invade the country. The result of this universal opposition was that our people were completely driven out of the country, and the great Ogden Tobacco Company, which Mr. Ford exploits as one of our big purchases, is as much English to-day as ever it was; there is not a dollar of American capital invested in it.

A pretty conclusive answer to all the talk about our great investments in England is found in a letter from E. A. Dithmar, London correspondent of the *Times*, and published, strange to say, in the same issue of that paper in which Mr. Bacon's article appears. "We hear," says Mr. Dithmar, "a great deal about the vast amount of American money put in

English enterprises, but much of this talk is misleading. The stock in many English companies that originated as branches of American enterprises is largely held by Englishmen. A prominent banker who has financial relations with the United States told me the other day that the only considerable investment of American money that he knew of was that of D. O. Mills in the Central London Electric Line."

As to our investments on the Continent, they are comparatively insignificant. It is true we have had some success with electric enterprises, but that is more because of our superior skill. The fate of the American merchant who tried to introduce our shoes into Austria affords a good hint of the reception that awaits any big industrial invasion of Europe. When the shoemakers of Vienna heard that some live Yankee was planning to open a number of shoe stores in that city, they threatened to smash his windows, and made such other violent demonstrations that he was glad to get out with a whole skin.

Nor are our foreign ventures on this side of the ocean of much more account. In Canada the hostility of the natives is even more pronounced than it is in Europe. In a few instances where an undertaking is of doubtful value, or where American brains and skill are needed, they allow our people to come in; but as soon as home capital and skill can be utilized a way is soon found to freeze the Yankees out. A striking instance of this ugly spirit was seen in the summary expulsion of H. M. Whitney and his American associates from the control of the Dominion Iron and Steel Companies. They were glad enough to utilize Mr. Whitney's money and skill to start these industries; but as soon as success was assured, he was forced out of the presidency. The American vice-president was also removed and Canadians were elected to the vacant places. Much has been said of our other ventures in Canadian railroads, mines, and various enterprises; but there are no facts to prove that they are anywhere near as large as Canadian investments in this country. The Lake Superior Power Company "is said" (quoting Mr. Bacon) "to be wholly owned in

this country;" but recent reports show that Speyer & Co., who advanced \$5,000,000 foreign money to that company, have decidedly the biggest grip on it. The Canadian extensions of the Great Northern Railroad are also credited to us, but as a matter of fact foreign interests in that road vastly exceed the amount of real American capital put into these extensions. Lord Strathcona has \$16,000,000 invested in this road, and the English royal family have \$10,000,000 more. Other Canadian capitalists, like Sir William Van Horne and Robert Hebden, have large interests in various enterprises here. In the last fifteen years their investments in St. Paul, Toledo, Detroit, and other Western cities have been very heavy. Their interests in Minneapolis, St. Lawrence, Adirondack, Rutland, and other cities are also very large. In the last three years Canadian investments in the Sloss-Sheffield Company have been big enough to force the election of two Canadian directors in that concern. Canadian bankers have also immense sums which they lend in Wall Street. Last fall it was estimated that, besides their bank holdings here, they had credits to the amount of \$85,000,000. Where is the proof that we have one-twentieth of that amount of credits to lend in Canada? In view of these well-known facts, the assumption that our investments in Canada exceed Canadian investments here is perfectly absurd.

In regard to Mexico and the countries south of it there is, perhaps, some basis for the claims of American exploitation. But here, too, allowance must be made for exaggeration, and the genuine must be distinguished from the make-believe. According to Consul General Barlow, over 1,000 American firms and individuals have invested in Mexico some \$500,000,000, one-half of it within the past five years. Mr. Barlow has evidently taken these figures from the prospectuses of the various concerns. The revelations of the past two years show that in order to get at the real value of these exploitation concerns it is necessary to allow about seventy-five per cent for water. Furthermore, because a certain enterprise is dubbed "American," that does not make it so. Neither does the pres-

ence of a few American officials in a corporation make it American. When, for instance, we see that Edward H. Warren, of New York, is President of the National Railroad of Mexico, we are apt to conclude that it is owned by Americans; but when we learn later that this individual is counsel for Speyer & Co., who own both the Mexican International and Mexican National roads; and when we also learn that Speyer Brothers, of London, and Teixeira De Mattos Brothers, of Amsterdam, are interested in the same road, we have a right to believe that it is *not* a genuine American enterprise, Consul General Barlow and Mr. Bacon to the contrary, notwithstanding. Investigation would probably show that most of the exploitation companies operating in Mexico and the countries south of it, and masquerading as "American," are really European enterprises that are being financed by Kuhn, Loeb & Co., Speyer & Co., and other foreign bankers here in New York.

Regarding our investments in Cuba in sugar and tobacco plantations, Mr. Bacon states that "one company, *Mr. Van Horne's*, has been at work building a railroad along the backbone of the island." The only person of that name interested in Cuban exploitation is Sir William Van Horne, of Canada.

Perhaps no other transaction has been so much exploited as our (alleged) absorption of foreign steamships. The Leyland Line was bought by J. P. Morgan in 1901. In 1902, when the International Mercantile Marine Company was formed, the public was surprised to hear that this same line had been bought by Mr. Morgan again from the identical parties who had sold it to him the year before. But what seems still more surprising is that in spite of this double sale to American capitalists the business meetings of this concern are still held in London, and the attending officials are the same identical Englishmen who have always controlled its affairs. What humbuggery!

Referring to the personnel of the newly formed shipping trust, W. J. Pirrie, of the English shipping firm of Harland & Wolf, made this statement: "Naturally, as fresh capital is more likely to be raised in America than in England, due

weight must be given to American opinion." When the organization had been completed, the *London Times* published this semi-official statement: "It will be noted that the board of directors is composed of eight Americans and five Englishmen. The preponderance of Americans is understood to be due to the fact that the greater part of the capital was subscribed by American financiers."

All this was, of course, clearly intended to fool the American people into believing that it was mostly genuine American capital that had financed the undertaking. But as a matter of fact nearly all the alleged American capitalists in the concern were partners, or employees, of J. P. Morgan. Clement A. Griscom, one of the American representatives, has since been superseded as president by J. Bruce Ismay, a leading English shipowner. In June, 1903, the *Nautical Gazette* published a summary of the facts about this combine, and concluded with the following statement: "Those seeking to build up American shipping in the foreign trade surely have load enough to carry without having Mr. Morgan and his *British* shipping, his *British* agreements, and his *British* interests saddled upon their backs and made to appear as solving the American shipping problem. His legitimate operations are not discussed here for any purpose of criticism, but merely to make clear the fact that his shipping merger is *almost, if not entirely, a British business enterprise*, no doubt profitable to its owners, but anything but helpful to American shipping interests."

Equally significant is the statement of a well-known Austrian jurisconsult to the Vienna correspondent of the *London Times* (June 9, 1902). Referring to this combine, he says: "It will be a matter of small interest to thinking Americans if a group of capitalists who happen to live in New York rather than in London obtain control of the great engines of commerce, and are able to exercise arbitrary power for their own profit, not only in the United States, but also abroad. Though the public may be deceived for a short time by such movements' being *labeled American*, they will realize eventually that there is a point beyond which individual power and influence cannot be permitted to take root in the republic."

There is no mistaking the meaning of this language. It shows as plainly as anything can show that light is breaking, and that, in spite of the mass of fraud and deception which surrounds these transactions, people are beginning to understand that re-Morganizing does not spell Americanizing.

It is doubtless true that some genuine American capital is going abroad; but all the facts tend to prove that it is only a drop in the bucket, compared with the amount of foreign capital invested here. The facts already stated, together with the monetary conditions prevailing here since 1898, all warrant the belief that most of the so-called American investments abroad are really financed with foreign capital. And this belief is fully confirmed by Prof. Von Halle, of the University of Berlin, in his lecture on "American Trusts" (May 19, 1903). He says: "One of the most interesting things about the building up of these trusts, especially in their invasion of England, was that it was done largely with foreign money. *More American finance bills were circulated in Europe than ever before.* The German bourse law, by heavily taxing, and thereby limiting transactions, was driving capital abroad, enabling German capital to be used in foreign undertakings. The United States was beginning to govern the world industrially by supplying intelligence and organizing capacity, *while the world supplied the capital.*"

This is a pretty square contradiction of the claim that we have been investing hundreds of millions of dollars abroad every year; and, although it has been very widely quoted, not one of our optimistic trade balance experts has dared to question its correctness.

Another series of transactions that has been much exploited as proof of our great financial prosperity is the purchase of those foreign bonds. But an investigation of the facts goes far to prove that these transactions were not what they pretended to be. The Russian bonds that came here in 1900 were taken by American contractors for building railroads in Russia, and then sold to foreign bankers and insurance companies with foreign connections here in New York. Some of the German bonds were taken by our insurance companies to enable

them to do business in Germany. They took them because they had to. In regard to the Bavarian loan of 1901, it was stated at the time, by the firm that floated the issue, that the principal subscribers were foreign societies and the class of foreigners who go about with large sums of money sewed in their clothes. This affords a good clew to the mystery of most of these transactions. The bonds were brought here to be sold to the vast army of migratory immigrants, who come here for the sole purpose of hoarding up money, and who naturally prefer to invest it in bonds of their own country.

When the English bonds came here in 1900 and 1901, it was said that many of them would be taken by the large colony of British subjects temporarily residing here. Undoubtedly they were, but at the same time there is no doubt that these two transactions were originated and exploited for the express purpose of booming the stock market by creating exaggerated notions of our astonishing financial resources. The big boom was on at that time, and the air was full of stories of our great prosperity, which was shown by the fact that we were lending these immense sums abroad. As one overheated Wall Street press agent put it, we were selling stocks to foreigners, and then lending them the money to pay for them. After the panic of May, 1901, there came the news that, instead of lending these immense sums to Europe, we had been borrowing hundreds of millions from her. It has always been claimed that this money was borrowed to finance certain big schemes that were under way at that time; and, as J. P. Morgan was the prime mover in these schemes, we are moved to ask why, in the name of all that is mysterious, did he need to borrow these millions abroad if he had other millions of American capital to spare for investment in low-priced British bonds?

Mr. Bacon seems to think it very curious that so many of these bonds should have disappeared from public view, but a more careful study of foreign press reports might have satisfied his curiosity on this point. That part of the British bonds which were not sold to British residents here were, after the panic, quietly shipped back to Europe and dumped on the Continental market, to be sold for what they would fetch. Ac-

cording to President Von Siemens, of the Bank of Berlin, some of the German bonds went back to Germany a few days after they were sold here; and he expected all of them back in a few months. Is it conceivable that any American investor would, in his sober senses, buy these bonds and then ship them immediately back to Germany?

Along with our foreign borrowings, the monetary conditions that had prevailed since March, 1899, afford positive evidence that there was no genuine American capital to spare for investment in low-priced foreign bonds. For over two years before the stock panic of 1901, the money market had been in such a precarious condition as to require aid from the Treasury to avert a financial crash. In his testimony before the Senate Committee in December, 1899, Secretary Gage said: "The movement toward stringency in the money market had assumed too great momentum to be averted by such means. December 18, a financial panic occurred. Prices of stocks fell ruinously. Interest rates rose to a fabulous height, and a general constriction of the money market was apparent. While this state of affairs found its most violent expression in the stock market, it excited anxiety and alarm throughout our industrial and commercial communities."

Conditions did not improve much, for Mr. Gage kept on redeeming bonds, to bolster up the money market, as long as he was in office (his successor is still doing it); and it is a curious satire on all the boasting of our foreign investments that one of these redemptions was announced the very day that J. P. Morgan's \$50,000,000 worth of British bonds landed in New York. The explanation given by Secretary Gage and others of these contradictory transactions was that some Americans had money to invest in foreign bonds, while others had to borrow abroad to float their schemes. But this attempt to pull the wool over people's eyes will not do. The parties to both transactions were one and the same.

In spite of all this, in spite of the panicky monetary conditions of the past three years, our financial oracles are still boasting of the millions of American money going into these foreign bonds. Thus in an article entitled "Are the Bases of

Our Prosperity Secure?" in the *World's Work* (May, 1903), the writer exploits these investments as proof of our strong financial condition, and quotes a statement from the London *Statist* to the effect that in cases of disturbance in the money market, we could realize on these bonds. Well, we have had disturbances galore in the past year, but up to this present time there has not been a solitary instance where the money market has been made "more secure" by funds got from the sale of these bonds. On the contrary, the principal "bases" of our money and stock prosperity in this period have been funds borrowed from some of the very same countries whose bonds were floated here.

The fact that certain insurance companies hold a few of these bonds is no proof that American investors own them. These particular concerns are largely loan and investment agencies for foreign capital; and the foreign bankers are large stockholders in them. There is not one institution without such foreign connections that holds any of the bonds. Some of them have been listed on the Stock Exchange; but this is only a blind—they might as well be listed in a graveyard, for no one ever hears of any dealings in them. "During the whole of last year the total sales of these foreign securities on the Stock Exchange amounted to just eight bonds; all of them being Mexican 5's. In 1902 the total sales were five bonds of the same issue." (*Evening Post*, April 23, 1904.) A prominent Russian financier has recently stated that not a single Russian bond has been sold in America since they were listed on the New York Stock Exchange.

In short, all the facts and circumstances including the monetary conditions here and abroad during the past four years justify the belief that not one dollar of genuine American capital has gone into any of these foreign bonds for the small item of interest paid by them. With the exceptions noted, every one of the bonds has undoubtedly been taken by foreign capitalists and laborers, and therefore they cut no figure in making away with our trade balances. The Wall Street view of these transactions is but a part of the general scheme to hide

from public view the true explanation of the disappearance of our balances.

And this true explanation, as outlined in my first article, is that these balances are not even big enough to offset our annual foreign debts; hence, instead of having a huge surplus left to buy back securities, or to invest abroad, or in foreign bonds, we are rolling up a big deficit, which has to be met by exporting specie, or by selling more securities or properties, or by contracting more foreign debts. Furthermore, it is the absorption of currency by foreign banks here, in settlement of this deficit, that is the main cause of the prevailing monetary stringency.

The current estimate of these debts is about as follows:

Earnings of foreign capital.....	\$100,000,000
Expenses of Americans abroad.....	100,000,000
Freights	50,000,000
Total	\$250,000,000

Mr. Bacon adds to this list \$60,000,000 for military expenses outside of the United States. But as most of the army supplies are sent from here, and as our soldiers bring, or send, a good part of their pay home, I doubt if this item amounts to over \$25,000,000 yearly. In regard to freights, I think that in view of our greatly increased foreign trade this item should be increased to \$75,000,000. As to the expenses of Americans abroad, it is safe to say that, owing to our greater prosperity, the increasing number of tourists and permanent absentees has swelled this item to at least \$125,000,000 yearly. For our investments abroad, which are variously estimated at from \$144,000,000 to \$450,000,000, I think that if we allow \$25,000,000 a year it is extremely liberal, and is more, in fact, than Mr. Bacon or any one else has actually located.

What is believed to be the biggest factor in this matter is the one that is most difficult to get exact information about—namely, the earnings of foreign capital. Advocates of the current theory display a surprising lack of knowledge on this point when they assume that practically all of the foreign capital

here is invested in railroad securities and government bonds. At one time this might have been the case, but within the last forty years a great deal of such capital has gone into our lands, mines, industrial plants, real estate, insurance companies, breweries, and other properties. It is quite probable that more foreign money went into our mines and coal, iron, and steel properties between 1896 and 1901 than in any similar period of our history. Much of this money was invested by J. P. Morgan, and hence is very difficult to locate. There is no doubt, however, that the coal trust is practically an English corporation: a fact which helps to explain the remarkable change of policy on the part of the British government in placing a duty on all coal exported from the United Kingdom. The most popular estimate of the total amount of foreign investment here is about \$2,000,000,000, but there is good reason to believe that it is fully three times that amount; and the yearly earnings of the same, in the way of interest, dividends, and profits, cannot fall far short of \$300,000,000.

But there is another factor in making away with our balances that is always overlooked. This is the hoardings of migratory immigrants. At one time most of the aliens came here to stay; and some brought considerable money with them. But since 1870 the great reduction in steerage rates has encouraged the coming of a class who only stay just long enough to hoard up a little money. Of late years there has been an enormous increase in this class of immigration. Between 1890 and 1900, 3,844,000 aliens came through the legal ports of entry. There were also fully 1,000,000 Canadians, and at least 500,000 others from Europe and Asia who came through via Canada to escape the stricter inspection which prevails at the Atlantic ports. This makes a total of 5,344,000 aliens that came in that decade; and yet the census report shows that the total increase of our foreign population in these ten years amounted to only 1,091,729; while in the decade of 1850-60, when the total immigration was only 2,598,214, the increase of our foreign population amounted to 1,690,095. "Between 1870 and 1890 the total immigration was 8,080,653, yet these two decades saw the lowest rate of increase in population since

1750." (Sidney G. Fischer, *Popular Science Monthly*, December, 1895.)

Study of these census reports discloses some startling facts on this point. Between 1890 and 1900, 543,000 aliens came here from Germany; and yet our German population decreased from 2,784,000 in 1890 to 2,663,000 in 1900. In the same period 745,000 immigrants came from the United Kingdom; and yet this class of our population decreased from 3,122,000 in 1890 to 2,782,000 in 1900. O. P. Austin, Chief of the Bureau of Statistics, in a recent address to the Rochester Chamber of Commerce, declared that "Much of our home prosperity undoubtedly had come by the addition in thirty-three years of 15,000,000 immigrants to our population, and the wealth and prosperity created by them, coupled with the natural increase in population, had given us 80,000,000 inhabitants in 1903, against 38,000,000 in 1870." This statement, coming from such weighty authority, plainly implies that every one of the 13,000,000 aliens who came here between 1870 and 1900, as well as the 2,000,000 who came since 1900, were permanent additions to our population. But in reality not 5,000,000 of the 13,000,000 became permanent "additions." The actual increase in our foreign population was from 5,567,229 in 1870 to 10,341,276 in 1900. There are some statisticians who never take a second look at their own statistics.

As to the amount of money absorbed by these migratory aliens, immigration officials estimated that in 1898 the Italians alone took \$25,000,000 yearly. But as their numbers have since trebled, and as wages have been much higher, it is safe to say that in recent years their annual absorptions reach fully \$75,000,000. Besides the Italians, there are other armies of aliens from Europe, Asia, and Canada whose absorptions, in prosperous seasons, would swell the total drain on this account to nearly \$200,000,000.

That this factor in making away with our balances should be overlooked is not to be wondered at, considering the current views on the subject. In spite of the census figures on immigration and population, in spite of all the evidence taken by congressional committees, some writers will have it that these

later immigrants actually bring in more money than they carry away. Mr. Bacon takes this view in his *Yale Review* article. Prof. C. R. Bullock (*North American Review*, March, 1901) estimates that immigrants and foreign travelers brought in more than Americans spent abroad. The *Post* (April 21, 1892) quoted foreign bankers to the effect that immigrants alone brought in more than Americans spent broad. Edward Atkinson made the same estimate in 1899.

Where these people get this notion from, Heaven only knows. They must be laboring under the impression that the immigration of later years is of a richer, not a poorer, class; that the hordes of Huns, Slavs, Greeks, and Italians who come and go every year or two (mostly on prepaid tickets) are just tourists, or invalids traveling for their health; and that the millions of Jews, whose necessities have well-nigh bankrupted the Hirsch fund, are only make-believe paupers. The one million aliens who arrived last year brought in, it is said, about \$16,000,000. But these figures are deceptive, since in many cases money is loaned to immigrants by padrones and friends to show to the inspectors. Samuel S. Cortis, representing the White Star Line, testified before the Immigration Commission last October that fifty per cent of the aliens came on prepaid tickets, or with money furnished by their friends. The only people who bring money here are travelers and the steadily diminishing proportion of aliens who come to stay, but these sums are more than offset by what is afterwards sent home to dependent relatives.

Adding these several items together, they show the following results:

ESTIMATED ANNUAL FOREIGN DEBTS.

Earnings of foreign capital.....	\$300,000,000
Immigrants' hoards.....	200,000,000
Expenses of Americans abroad.....	125,000,000
Freights	75,000,000
American investments abroad.....	25,000,000
Military expenses abroad.....	25,000,000
Total	\$750,000,000

Most of these items are likely to change with changing con-

ditions. A general decline in trade, for instance, would lessen the cost of freights, expenses abroad, and cut down the earnings of foreign capital and labor. But I do not believe that for the last three or four years this estimate is far out of the way. However, I am not concerned to prove the exact amount of these debts, individually or collectively. The main purpose of this article is to prove that as a whole they largely overtop our trade balances; so that, instead of having any big surplus, we are nursing a very troublesome deficit.

The reports of foreign dealings in our properties, as presented in my first article, show that in 1900, 1901, and 1902 the net foreign purchases of our securities and properties aggregated some \$400,000,000, for which we got no cash payment, as the exports of specie (gold and silver) in this period exceeded the imports. In this period we also borrowed those immense sums from foreign bankers.

And here the question arises: Where did the foreign bankers get all this money to lend us without bringing it from abroad? Financial experts dodge this particular question as carefully as if it contained the germs of some frightful pestilence. Yet it is just as essential to answer it correctly as it is to explain any other part of the problem; for since the panic of 1901 these transactions have been the cause of considerable worry in financial circles. Now, inasmuch as the exports of specie in this period exceed the imports, there can be no doubt whatever that the foreign bankers got all this money, as well as all the securities and properties they acquired in the same period, in settlement of this deficit.

The chief circumstances which tend to corroborate this view are: (1) The disappearance of our gold currency; (2) the state of trade and industry; (3) the monetary conditions.

Since 1896 we have had the largest increase of currency on record; and three-fourths of this increase has been in gold and gold certificates. In 1900 United States Treasurer E. H. Roberts predicted that gold would soon circulate as freely in New York as in California. But, like most of that gentleman's predictions, this one has proved a ridiculous failure. Instead of being more plentiful, the universal testimony is that there

is actually less of the yellow metal in general circulation now than there was in 1896. Correspondence with bank officials confirms this view. The amount of gold handled by them in everyday business is decreasing. Even gold certificates are not so plentiful as they should be, considering the quantity issued in recent years. Doubtlessly a part of our gold has been carried off by migratory aliens and travelers. Canada, for instance, has a good share of it. Her whole monetary system is, in fact, based on our coin, which forms the reserve of her banks. In 1903 they held \$35,000,000 in American gold. But allowing for this drain, it is certain that a large amount of our coin, and paper money, too, is stowed away in these foreign banks.

From the statements of government officials and financial oracles, it might be supposed that all the gold mined in this country belongs to our people; but this is not true. Foreigners have been gobbling up our mines for many years back. It is said that most of the mines in Montana belong to Englishmen. One of these, the Drumlummon, has yielded to its owners (the Rothschilds) over \$20,000,000. Since 1896 English investments have been very heavy, and include the five largest mines ever opened here—the Independence, Camp Bird, Sultana, Rob Roy, and the De Lamar. All the gold from the Klondike is also credited to us, in spite of the fact that most of the miners there are foreigners, chiefly Canadians. A big portion of the gold from the West, including the imports from Australia and Japan, is consigned to foreign banks in New York, and, although we have no proof that any of it belongs to American citizens, it is always credited to us in the Treasury reports. But now and then somebody blurts out the truth of the matter, and gives the public a chance to see how it is being fooled. Referring to the imports in August, 1901, William Sherer, Manager of the New York Clearing House, says: "Of course this gold from Australia and the Klondike must be paid for, and in return for the deposits remittances may have to be made to England and Canada, but as long as British banks here can obtain as remunerative rates as abroad, the gold will remain here." All this may be true enough; but when Treasury of-

ficials and other alleged experts include in our gold holdings that which belongs to foreign banks, they are perpetrating a fraud on the public.

How much money supposed to be ours and in active circulation here, is stowed away in the vaults of these foreign banks no one can tell. But there is good reason to believe that it amounts to a very considerable sum. Besides their immense time loans, and their investments in our properties, they seem to have other big sums to lend on call in Wall Street. The press reports show that on numerous occasions in recent years they were the only parties that seemed to have any money to lend.

One conspicuous economic fact which tends strongly to prove that a great part of our currency, is being absorbed by these institutions is the condition of trade and industry. Referring to the H. B. Claflin Company's half-yearly report, the *Post* of July 18, 1903, states that "the dry goods trade as reflected in this company's profits, like the iron trade and many other industries, reached high-water mark, not in 1901 or 1902, but in the first half of 1900." In another issue, referring to the increase in our currency of over \$100,000,000 for the year ending May 30, 1903, the *Post* argues that as the money was not in the banks it must be in the pockets of the people, who are carrying around \$20 where a few years ago they carried only \$5.

This theory does not fit in with the facts. If all this great increase of currency was in active circulation among the people, mostly wage-earners who are the largest consumers of wealth, the effect would certainly be to cause an increased demand for commodities, the production and distribution of which would in turn give a greater stimulus to general business. In short, business would increase in proportion as the supply of money increased. Hence the steady decline in general business in the past few years—that is, "since the first half of 1900"—could never have taken place if this great increase of money had remained in active circulation. It would, in fact, have been an economic impossibility. There is no instance in the history of any country where trade and industry

have steadily declined while the stock of good money in active and general circulation was increasing at such an enormous rate.

Still another corroborating circumstance is the stringent monetary condition which has prevailed since early in 1899. Financial experts contend that this stringency is due to our inelastic currency, which fails to expand when needed to move the crops. In his address before the Pennsylvania State Bankers' Convention (1902), Hon. J. H. Eckels said: "No demand for money can be more legitimate than the annual call for currency to be used in payment for harvesting and moving the crops." On the same occasion, Hon. A. B. Hepburn said: "The only possible way for relieving such a condition of affairs is to move the products of the country, the wheat and cotton—in fact, all articles of merchandise—to the markets, in order to realize their values, thereby relieving the stringency and restoring a normal condition of affairs."

In reply to the above, which is a fair sample of "expert" opinion as to the causes of existing monetary troubles, it can be truthfully said that while there have been times when, after a series of lean years, the farmers needed advances to pay their hands, the bountiful crops of the past six years have rendered them independent of such assistance. In fact, instead of seeking advances from the East, they have been lending enormous sums here in New York. A good reply to Messrs. Eckels and Hepburn is found in a statement of J. B. Forgan, President of the First National Bank of Chicago, in the *Post* of August 22, 1903. He says: "Western banks are in good condition to meet all demands on them for crop-moving money. For some years past they have found it impossible to loan all their funds at home, and have been lenders of money in the open market. Herein lies the strength of the Western situation to-day, compared with ten years ago. Then nearly all Western banks were large borrowers from their New York and Chicago correspondents. Now, as a whole, they are lenders of money in these markets."

The assumption that the stringency is due to the demand for crop-moving funds is further refuted by the fact that we

have had this trouble every year, before and after the harvests had been gathered in. It came in March, 1899, and continued to the end of the year, and we have had it about every two months since that time. In fact, it may be truthfully said that the stringency is chronic, rather than periodical.

Again it is argued that the trouble is owing to the fact that general business has outgrown the money supply. This argument has been paraded with much show of authority, finding ready acceptance when there were no facts at hand to confute it. But it is seen to be perfectly absurd when we learn that since the first half of 1900, while our currency has been growing so rapidly, general business, instead of growing more rapidly, has actually fallen off. If all this enormous issue of currency was still in circulation, the financial depression would be just as impossible as the business depression. Hence the very fact that such depressions occur in the face of this great increase of the circulation medium, coupled with the other fact that the foreign banks can lend so much money here without importing it, is proof enough that these institutions are absorbing our currency as fast as it is issued.

And they are absorbing it in part settlement of these annual foreign debts. There is no other source from whence they could have got all the money they have invested here in this period. The facts and circumstances already set forth prove beyond all controversy that in our dealings with the rest of the world we are running behind. Instead of having a yearly surplus of several hundred millions to buy back securities, etc., we are piling up a very big deficit, the settlement of which is the main cause of our financial woes. In no other way is it possible to explain the astonishing fact that, after six years of the biggest export trade in our history, accompanied by an enormous increase of sound currency, our money market has to be bolstered up and financial panics averted by unusual aid from the Treasury and by immense loans from foreign bankers. In no other way is it possible to explain the disappearance of our gold currency and the growing prosperity and activity of foreign bankers here.

A great point in favor of this view of the matter, as against

the current theory, is that it affords the only logical explanation of the disappearance of our balances in former years. Mr. Bacon and other writers assume that this liquidation began about 1893, and that the period between 1874 and 1892 was one of foreign investment. In 1893 Erastus Wiman estimated that these investments amounted to \$300,000,000 for the three years prior to 1890. Now, according to statistics compiled by Hon. F. J. Van Voorhis, our net exports of merchandise in these eighteen years amounted to \$1,892,000,000. But instead of getting any cash for this enormous balance, we actually exported \$214,000,000 more gold and silver than we imported. As we were not investing in any foreign bonds at that time, and as our great American industrial invaders had not yet started on their wild career, the question arises: What did we get in exchange for all this wealth of exports? To this question we get no answer from the financial experts. Neither do we get any answer to the still more puzzling question of how foreigners could make all these investments here in this period without sending us any cash. The question was answered, however, and very correctly, too, I think, by John Swinton in his testimony before the Committee on Education and Labor (1883). Our annual debts, he estimated, at that time amounted to about \$150,000,000, half of which we settled for by exports of merchandise and the other half by sales of securities.

This doubtless explains the situation for that whole period. We liquidated our temporary foreign debt by increasing the permanent one, just as we happen to be doing at this present time.

Although financial experts generally attribute the trouble in the stock and money markets to over speculation and a bad fiscal system, there are times when the logic of events forces them into admitting that something else is the matter. Referring to the dubious state of the money market and foreign exchange, the *Evening Sun* of September 27, 1902, says: "Notwithstanding, in short, our still heavy, although diminished, favorable foreign trade balance, it is plain that this country has temporarily *overbought* itself, and, while this state of things

will be corrected in due course of time, it now constitutes the main obstacle to the importation of gold from Europe, which would furnish the most prompt and logical source of relief to the local money market."

Omitting the word "temporarily," this statement describes the situation exactly, and fully confirms the view I am advocating. The country has certainly "overbought itself," not "temporarily," but for many years back. The overbuying has not, however, been of commodities, as this statement implies; for since 1897 our excess of exports of merchandise has been very much larger than in any similar period of our history. The overbuying has been of foreign capital, foreign labor, foreign titles, and foreign travel. Here is the great truth which foreign bankers, stock boomers, and financial experts have been hiding from public view these many years.

This truth would have come out four years ago if the big operators had not succeeded in befuddling the public mind in regard to these foreign borrowings. It was said at the time that these transactions were to help the big financiers float their numerous ventures. This was true, but not in the sense usually understood. The money they borrowed was what we owed abroad in settlement of this deficit. They borrowed it in order to prevent its being shipped abroad. Since these borrowings amounted to \$500,000,000 in June, 1902, it is safe to say that they were not less than \$300,000,000 one year before nor less than \$150,000,000 two years before. Now if we had shipped abroad the amounts due at these different periods, it would have caused a disastrous panic in the stock and money markets, and thus paralyzed any effort to float the issues of new enterprises. To avert these dangers the money was borrowed abroad as fast as it became due. The transactions were precisely the same as those undertaken by the Morgan-Belmont syndicate in 1895, when they contracted to protect the gold reserve from being depleted by the foreign demand for the metal. They did it by selling securities enough abroad to offset the foreign demand for gold. In one month of that year (May), they placed abroad \$50,000,000 worth of railroad securities. In December, 1902, a syndicate of bankers was formed for pretty

much the same purpose—that is, to avert any serious export movement of gold. And they effected their object in precisely the same way—that is, by selling or pledging enough of our securities abroad to offset our foreign obligations. But these later transactions have been more difficult because these annual debts seem to be growing larger every year; and if we cannot sell securities enough to stave off gold exports, we have to borrow. This system of “high finance,” as it is called, was resorted to again last year. In the *Forum* (April-June, 1903) A. D. Noyes says: “The season’s market for foreign exchange has, however, been managed with the greatest skill and *prevention of gold exports*, which was made possible through a careful series of international operations in the money market.”

Where the public is befuddled in this matter, is in being led to believe that it is the big financiers who owe all this money abroad; whereas in truth it is the whole country that owes it, and these financiers are only trying to prevent collection of the debt in gold by selling securities or by borrowing on them abroad. And they are doing it to prevent depreciation in their own stocks. Thus the *Times* of February 14, 1903, says: “Those most interested in our stocks, being our most powerful financial leaders, may be counted upon to delay the outward movement of gold or confine it to the smallest possible limits.”

When this truth fairly dawns upon the public mind, when it is seen that the debt is national rather than individual, and that much of the borrowing is to stave off gold exports rather than for “improvements and betterments” (as is usually claimed), then the bottom will drop out of the whole thing, and the mess of tomfoolery and nonsense which passes as the current theory of the disappearance of our trade balances will no longer be exploited by stock boomers, promoters, and financial oracles.

In the January issue of the *World of To-Day* Mr. Slason Thompson boldly asserts that our railroads are more largely owned by the people of the United States than ever before. To prove this he cites the one case of the Illinois Central Railroad, foreign holdings of which have decreased from \$34,000,000 in 1893 to \$21,000,000 in 1903. Since President Fish

refuses to tell whether this liquidation took place before or after 1898, the case has no bearing on this discussion. As to liquidation in other roads, Mr. Thompson naïvely remarks: "While there are no figures *available* for all the roads, those of the Illinois Central are sufficient to indicate that eighty per cent of the total holdings in American roads are held in the United States."

Well, why is it that "there are no figures available for all the roads?" Every other railroad president knows just as much about foreign holdings in his company as Mr. Fish does about such holdings in the Illinois Central. Why, then, are they not equally ready to make this information public? Why is this lone instance of liquidation so eagerly clutched at and paraded as proof when so many other (alleged) proofs are at hand? Mr. Thompson informs us that in response to fifty-two letters sent out he obtained much valuable information regarding the capitalization, etc., of forty of the roads. But in regard to this much-exploited foreign liquidation, which appears to have been the main object of his quest, he has not obtained a solitary new fact; for what he says about the Illinois Central was published in the newspapers nearly a year before.

If Mr. Thompson had studied the financial reports in these newspapers during the preceding twelve months, he might have found reasons for changing his views on the subject. In the very first week of January these roads, about whose foreign liquidation he is boasting, began borrowing abroad, and they kept it up during the entire year. During the first two weeks of March they borrowed from \$50,000,000 to \$75,000,000. In October securities to the value of \$128,000,000 were issued, and most of them were floated abroad. The *Post* of December 12 stated that there had recently been placed abroad \$40,000,000 worth of short term and other bonds. The principal issues during the year were: Pennsylvania, \$138,000,000; San Pedro, Los Angeles, and Salt Lake, \$50,000,000; Lake Shore, \$50,000,000; Erie, \$50,000,000; Iron Mountain, \$10,000,000; Rapid Transit, \$30,000,000; Philadelphia, Baltimore, and Washington, \$10,000,000; Long Island, \$10,000,000; Lackawanna Steel, \$10,000,000; Union Pacific, \$10,000,000; Atchi-

son, \$10,000,000; Baltimore and Ohio, \$9,000,000. Sometime in December the *Post* quoted a prominent banker as saying that nearly every large railway in the country was borrowing, and that since the Pennsylvania's experience with its stock the *home market has been virtually shut to all such borrowings*. This means that about all of the stocks, bonds, and notes put out by corporations in 1903 were floated abroad. And this statement is fully confirmed by the numerous reports published in the daily press. Thus in the *Times* of August 26 the head of one of the four largest banking houses in New York says: "We have sold more bonds abroad in the past six months than we have sold here. Our business in London, Paris, and Berlin since July 1 has been greater than it has been in any two months for over a year." According to the *Post* (March 19, 1904), "during December and January heavy blocks of our bonds were sold throughout Europe, French investors, especially, taking them on a scale never before observed." Including net purchases on the Stock Exchange (600,000 shares), it is safe to estimate the total foreign investments here last year at fully \$400,000,000. If our temporary borrowings were added to this list, it would be very much larger, as there was hardly a week in the whole year that we were not contracting such obligations.

Judging from the predictions of financial oracles, this enormous export of securities, and a net export of merchandise of some \$420,000,000, should have drained Europe of its gold supply. Thus the *Evening Sun* of March 24, 1903, says: "While our trade will fall below that of former years, two facts should not be overlooked. One is that the falling off is in respect of excess only, and the other is that Europe can no longer pay us by sending back our stocks. The return of those stocks served to counterbalance our enormous trade balance of the past few years, but there is no longer any sufficient supply of them held abroad to perform this service again." Therefore, the article continued, we ought to expect large imports of gold during the year.

This same old familiar claim was exploited by other oracles on numerous occasions during the year, just as it has been for

the last ten years. If it were true, and if our annual foreign debts amount to only \$250,000,000, as is always assumed, we should have imported not less than \$550,000,000 in gold. But the fact is, the gold imports barely offset our exports of silver.

The only logical deduction from these facts is that the whole of our trade balance, and all these notes, stocks, bonds, etc., went to offset our annual foreign debts and to pay back previous borrowings—that is to say, we liquidated the temporary debt by increasing the permanent one, the same thing that we have been doing for years.

One fact, illustrated by the *Evening Sun's* prediction, which tends most to discredit all these liquidation claims, is the colossal miscalculations of financial experts regarding international monetary conditions. In 1900 and 1901 they claimed that we were then lending hundreds of millions to Europe, although, as it afterwards turned out, we were borrowing hundreds of millions from her. It was claimed that these borrowings were only temporary, and would all be paid back by our grain shipments in the fall of 1901. But instead of this we kept on borrowing until, in June, 1902, we owed Europe \$500,000,000. Similar miscalculations have been made by financial experts and bankers in all their estimates and predictions of current and future events during the past three years. But their calculations for the present year afford perhaps the best proof that they are completely blind regarding international trade and money conditions. In the *Post* and other papers, prominent bankers asserted that we were square with the world, and had, as a result of our foreign trade, big sums due us abroad. The most optimistic of these experts, Daniel F. Kellogg, in his forecast for the year in the *Sun* of January 4, felicitates the country on "the flourishing state of our national finances, the huge quantity of our circulating medium, the *cancellation of our indebtedness abroad, and the heaping up of a large credit balance in its stead.*"

How far short of fulfillment these predictions have come is best seen by a brief statement of events since January 1, 1904. On the Stock Exchange the promised boom has not materialized. Dullness has reigned supreme. Foreign dealings in

stocks have been small (with purchases slightly ahead). Outside of the Exchange the principal boom has been in that particular business, activity in which is never considered a sign of prosperity—that of the pawnbroker, who, much to the disgust and confusion of Mr. Kellogg and other financial rainbow chasers, has been doing a land-office business in making loans to the big operators. In January \$125,000,000 worth of Baltimore and Ohio stocks were listed on the European exchanges, and later reports show immense purchases of them. Since then other issues have been floated, mostly abroad, to the value of \$500,000,000; \$100,000,000 was put out during the week ending May 14, and a still larger amount the following week. The principal issues were: Pennsylvania, \$50,000,000; New York Central, \$50,000,000; Boston and Old Colony, \$25,000,000; Consolidated Gas, \$25,000,000; Southern Railway, \$15,000,000; American Telephone, \$20,000,000; Rock Island, \$163,000,000; Long Island bonds, \$10,000,000; New York City bonds, \$37,000,000; and \$40,000,000 sterling borrowed, according to the *Press* (May 23), from one house alone. Against these foreign investments, loans, etc., there is a report of but one American purchase, that of the Montreal Locomotive and Machine Company, of \$1,500,000.

These totals are of such magnitude as to justify the belief that last year's debts were not canceled by our balances, as the oracles claimed, and that we are still staving off the inevitable as in former years. Be that as it may, the transactions, taken in connection with the movement of specie and the sterling borrowings, afford still stronger proof of the colossal blundering of financial experts in their estimates of our annual foreign debts. If, as these experts claimed last January, we were out of debt, and had "heaped up a large credit balance abroad," then we should have increased this credit balance by at least \$350,000,000, or imported that amount in gold in settlement for all the stocks, bonds, and notes sold or pawned abroad since that time. As late as February 15 Mr. Kellogg predicted that "we shall be able to meet all the demands for the Panama Canal and import \$10,000,000 gold for the Baltimore fire." Well, we didn't get a dollar for this fire; and so far

from having \$40,000,000 credits abroad to meet the canal payment, we have already exported \$57,000,000 and staved off the export of at least \$50,000,000 more by borrowing.

Here, then, we see that, according to estimates taken from their own papers, these January forecasters were fully \$400,000,000 out of the way in their calculations. Now the only explanation of all these circumstances is that, instead of having any surplus from our balances, we are still nursing a deficit, and this deficit is growing larger and more troublesome every year. Part of this deficit we have met by payment of cash to the foreign banks here. That accounts for their having so much cash without importing it from abroad. It also accounts for the stringent monetary conditions, large bank loans, and the disappearance of our gold currency. The other part of the deficit has been met by selling or pledging securities and corporation notes to foreigners. We have fairly gorged Europe with these securities, so that now she hesitates, and wants cash instead; hence this demand for gold that has to be checked by borrowing in order to stave off a financial crash.

This view of the matter is sustained not only by these reports, but also by two other circumstances, one of which was referred to in my first article. The first of these circumstances is the increased dealings in our properties on foreign exchanges. Within the past year we read of the formation of companies in various parts of Europe to deal in our stocks. One company in Switzerland has a capital of \$2,000,000. In no former period do we read of so much activity in American stocks abroad as in the past twelve months. Consistent with these facts we find the agents of foreign investors much more active in the management of our properties than in former years. These agents, mostly foreign bankers, such as Kuhn, Loeb & Co., August Belmont, J. L. W. Seligman, Speyer & Co., Ladenburg Thallman, and Hallgarten & Co., as well as J. P. Morgan, are certainly more powerful among our large corporations than they were ten years ago. It is not necessary to go through a whole year's market reports to learn this fact. A comparison of the market reports and advertising columns of any leading New York paper for one week of 1903 and 1893

would be sufficient to prove the audacity of all these claims of foreign liquidation. The public is often misled in the matter because the heads of these houses are usually American citizens. Thus August Belmont is a native American, but his house is merely a branch of the Rothschilds; so, too, Jacob H. Schiff is an American citizen, but he handles more German capital than any banker in Germany, and his growing prominence furnishes about all the proof that is needed as to whether foreign investments are increasing or decreasing.

Toward what does all this tend? What matters it whether our foreign debts are increasing or decreasing?

In his reply to the London *Times's* comments on our financial condition in 1901, Secretary Gage is reported to have said that he didn't consider it a *matter of great moment* whether that paper was right or wrong in saying that the United States was still a debtor nation. It doesn't matter a particle whether our creditors live in New York or England, so long as we can borrow money to invest in American enterprises, pay interest, and make a handsome profit.

Such is the argument usually advanced when some revelation like that of our borrowings in 1901 threatens to knock the whole foundation from under the superstructure of fraud and nonsense that has been erected around this matter. Involved in this argument is the attempt, already noticed, to befuddle the question by making it appear that we are borrowing to increase our wealth-producing facilities. The facts already set forth sufficiently prove we are not borrowing abroad for that purpose. We are borrowing and selling our properties to stave off the collection of our debts in gold. Right on the heels of the last Pennsylvania issue of \$50,000,000 came the announcement of the discharge of eleven thousand hands from that road. Erie's big bond issue just preceded a similar method of "meeting the demands of expanding business."

Mr. Gage's further contention that the more we borrow abroad the more money we are making and the greater is our wealth and prosperity, is just such fantastic logic as might be expected from a Wall Street financier who buys and sells bonds, and whose profits expand in proportion as people increase their

debts. A sufficient answer to it is found in the history of events since he advanced this argument. In this period we have borrowed more money abroad than in any similar period of our entire history. But instead of growing more prosperous, general business has fallen off, wages and profits have been cut down, and the loss in values in corporation stocks alone, according to recognized authorities, reaches the enormous sum of \$4,000,000,000.

The practical solution of this whole problem will come when foreigners insist on getting cash for what we owe them. Mr. Gage and his friends seem to think that it is a matter of small importance whether we are a debtor nation. In 1902, when we owed abroad some \$500,000,000, the total stock of gold in the treasury, exclusive of what was held for gold certificates, was about \$250,000,000. So that if foreigners had demanded cash settlement at that time it would have bankrupted the treasury and forced a \$250,000,000 bond issue to square the account. Thus it appears that after four years of unparalleled prosperity we were actually worse off than in 1893, when the foreign demand for gold precipitated the most disastrous panic the country has ever known.

Now the conditions have not improved since 1902. This deficit is growing larger and more threatening every year, and the difficulty of meeting it is becoming greater all the time. Never before were the newspapers so full of reports of our borrowings abroad as in 1903, and this year such reports are still more numerous. Judging from the fright caused by the recent gold outflow, and the sigh of relief that went up from Wall Street on the announcement that our big sterling borrowings might check the movement, it is evident that it is only such methods that are staving off the final catastrophe. Under these circumstances it will be seen that, despite Mr. Gage's cheerful idiocy, the trade balance puzzle and its relation to our international indebtedness has become the most momentous question of the time. But this question will never be settled by any theory based upon Wall Street's gospel of optimism, with all its misrepresentations; for, as Carlyle says, "The truest of all gospels is that a lie cannot endure forever."

Brooklyn, N. Y., May 25, 1904.

W. H. ALLEN.